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BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
TOM FORESE
Commissioner
ANDY TOBIN
Commissioner

Arizona Corporation Commission

DOCKETED

SEP 19 2016

DOCKETED BY

IN THE MATTER OF THE APPLICATION)
OF ARIZONA PUBLIC SERVICE)
COMPANY FOR APPROVAL OF ITS)
ELECTRIC SERVICE CONTRACT WITH)
ALIGNED DATA CENTERS, LLC.)

DOCKET NO. E-01345A-16-0131

DECISION NO. 75751

ORDER

Open Meeting
September 7 and 8, 2016
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

Background

2. On April 19, 2016, APS filed to request the Commission's approval of its experimental high load factor ("HLF-3") pricing structure contract with Aligned Data Centers, LLC ("Aligned"). The contract covers only the Aligned location at 2500 West Union Hills Avenue in Phoenix. Aligned is currently being served by APS at only this location.

3. Aligned is a new APS customer and is constructing a data center in North Phoenix. Aligned anticipates being a very high load factor customer, similar to two other large data centers in the APS service territory with special contracts approved by the Commission.

4. Under the terms of the electric service agreement ("ESA") addressed in this application, in order to achieve commercial operation, Aligned must meet a specified threshold requirement and monthly load factor. Once this threshold is achieved, Aligned would be served under the HLF-3 Pricing

1 Structure, if this rate is approved by the Commission. As a new business, the timing for when Aligned
2 meets the threshold is uncertain.

3 5. Aligned is currently served under the E-32 S rate schedule, for a small pump, and the E-
4 32 M rate schedule, for the building where construction is taking place. When Aligned enters its Initial
5 Start-Up Period, estimated at early 2017, it will be served under the E-32 L rate schedule and may also
6 be served under the E-34 or E-35 rate schedules during periods when it does not meet the requirements
7 set in the contract. Ramp up to a load factor consistently exceeding 90 percent could take approximately
8 nine to 18 months, meaning that Aligned will possibly begin taking service under the HLF-3 rate by the
9 Fall of 2018.

10 6. APS has sufficient generation capacity and reserves to serve Aligned. The marginal cost
11 to serve Aligned arises primarily from the Company's cost of fuel, and the rates in the ESA will not only
12 cover the cost to serve Aligned, but exceed the Company's marginal cost. In addition, the proposed
13 HLF-3 rate includes all current applicable adjustors for the Company's extra-large general service
14 customers.

15 7. In response to a data request, APS indicated that lower rates for High Load Factor
16 customers will shift some costs to other extra-large customers in a new rate case, but that such a shift is
17 cost-based. "The high load factor pricing schedules and the Extra-High Load Factor rate schedule are
18 cost based rates which create a new subclass within the Extra-Large customer group. This sub-grouping
19 creates a more precise cost allocation to develop the cost to serve high load factor customers. While
20 this process necessarily result in other extra-large customers paying slightly more, it is a more accurate
21 reflection of the cost to serve these other extra-large customers that do not have a very high load factor."

22 **Extra High Load Factor Tariff**

23 8. Aligned has the right to terminate the ESA in order to take service under a generally
24 available rate, such as the recently filed Extra High Load Factor ("EHLF") rate (included in APS rate
25 application E-01345A-16-0036). Termination would require 30 days' written notice.

26 **Microgrid Project**

27 9. To enhance reliability, Aligned has backup generation in a microgrid configuration. APS
28 is sharing costs with Aligned to develop a 62.5 MW diesel microgrid project with a new 69 kW enhanced

1 capability substation. APS has indicated that this microgrid project will not only provide backup for
2 Aligned, but can be used as a cost-effective system capacity resource for the benefit of all APS
3 customers.

4 **Analysis and Recommendation**

5 10. System Benefits and Decision No. 73183 (Economic Opportunities). Staff has
6 recommended that the ESA with Aligned be approved. The experimental high load factor rate is
7 reasonable for Aligned because it represents the appropriate rate for a very high load factor customer.
8 Very high load factor customers make more efficient use of existing infrastructure, rather than creating
9 a demand for more generation, and thereby help to reduce the overall cost of serving customers. In
10 addition, the ESA proposed in the application would be consistent with the provisions of Decision No.
11 73183, which authorized APS to pursue economic opportunities through the use of Commission-
12 approved contracts.

13 11. Other Benefits. Aligned currently has five employees at the data center, but anticipates
14 having an additional 15 by the end of 2016. Aligned also has four dozen contractors in place at the
15 present time, including employees involved in engineering, construction, operations and security.
16 Aligned will also contribute additional sales and property taxes. In addition, APS believes that Aligned
17 has the potential to increase its business in the Company's territory and that additional locations are
18 possible, since Aligned is a 'build to suit' data center provider to global corporate clients.

19 **Fair Value Implications**

20 12. Staff has also analyzed this application in terms of whether there were fair value
21 implications. In Decision No. 73183, issued on May 24, 2012, the Commission determined the fair
22 value of the APS jurisdictional rate base to be \$8,167,126,000. That determination is appropriate for
23 purposes of this analysis. Compared to APS's total revenues, any revenue impact from this agreement
24 would be *de minimus*, and any impact on APS's fair value rate base and rate of return would also be *de*
25 *minimus*.

26 **Impact of Special Contracts**

27 13. APS utilized a cost based approach to the pricing structure proposed in its application.
28 The proposed change in price only affects revenues to APS. Also, Staff has recommended that the

Commission specify in its Order that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with Aligned.

CONCLUSIONS OF LAW

1. Arizona Public Service Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Arizona Public Service Company and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated August 25, 2016, concludes that it is in the public interest to approve the APS Electric Service Agreement with Aligned Data Centers, LLC, as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the Electric Service Agreement with Aligned Data Centers, LLC is approved.

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1 IT IS FURTHER ORDERED that approval of the agreement at this time does not guarantee
2 any future ratemaking treatment of the agreement with Aligned Data Centers, LLC.

3 IT IS FURTHER ORDERED that this Order shall take effect immediately.

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5 BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

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7 
8 CHAIRMAN LITTLE

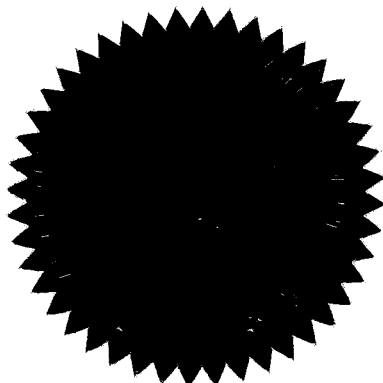
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10 
11 COMMISSIONER STUMP

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14 COMMISSIONER FORESE

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20 COMMISSIONER BURNS

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22 IN WITNESS WHEREOF, I, JODI JERICH, Executive
23 Director of the Arizona Corporation Commission, have
24 hereunto, set my hand and caused the official seal of this
25 Commission to be affixed at the Capitol, in the City of Phoenix,
26 this 19th day of September, 2016.



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28 
JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

TMB:jmk:nr/WVC

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